



"Providing Life's Essential Services"

Utility Advisory Committee

Meeting Highlights – December 13, 2007

Committee Members present:

Deena Monteiro, Michael Napoli, Sharon Schilling, Allan Schroeder, Sarah Velasquez, Arthur Reker

Committee Member absent:

John McCubbin

Staff present:

Lon Martin, John Watkins, Cindy Williams, May Albiani, Sarah Rubin, Renena Smith, Sharon McDowell

1. Recap of Action Items

- a. Lon Martin, Assistant Director, advised the requested information (Fresno Utility Rate Comparison and Customer Service Performance Measures) was provided in the meeting packet. Lon reported on the requested information.
- b. Community Sanitation Division (CSD) information is not included in the Rate Comparison (Item 1A). The reason is in order to have the same type of services for the comparison.
- c. Line item WTR6 - is for infill projects and the estimate on the projects page is based on a rolling average. The estimate is because the service is conducted based on time and materials.
- d. Customer service data for each division is derived from a different tactic. For example, Wastewater receives very few customer calls because Sewer Maintenance has the primary contact with customers.
- e. The City does an annual survey to ask questions about various services that we provide; included are all the services DPU provides and the City sets the performance measure. The purpose is to set priorities and identify resources. This gives the City an opportunity to redirect resources. If there is an area that comes back negative, the City will take a closer look.

2. Finance Department Presentation - Renena Smith, Budget Manager

Funding Sources:

- a. Fund Structure (General Fund): in government accounting this is the fund that gets the most press. The General Fund revenue comes from property taxes and sales tax to fund Police, Parks, Fire and some Public Works activities used for general government operations.

- b. Special Revenue Funds: funds collected for a specific purpose; example gas tax with a definition on how you can spend it, you can only use it to pave streets. Another example is Community Development Block Grant (CDBG) funds.
- c. Capital Funds: funds for major expansion or replacement.
- d. Debt Service Funds: used to pay for our bonds.
- e. Propriety Funds: run more like a business.
- f. Enterprise Funds: used by DPU to generate their own revenue from services provided.
- g. Internal Service Fund (ISFs): one City department providing a service to another department. They provide a service at cost for another City department (cannot do it for profit).

Budget Background on how the City got to where we are today:

- a. A few years ago the City Administration and City Council wanted a more cooperative way to do budgeting in terms of what is best for the City as a whole and to tear down the silos (independent operations within departments). The City now combines resources among departments - an example, median islands. One department coordinates volunteers to work on the median islands, another provides the needed chemicals. The City now has control of a program that seemed to be out of control for one department. What came out of this exercise were Key Result Areas (KRA) cabinets....brainstorming....asking ...ok what's the outcome we want. The result of the brainstorming is everybody working together to do what is best for the City of Fresno.
- b. The Budget process begins in October. The Budget Office has a stakeholder meeting and discusses the proposed budget. They analyze increasing fees looking at dollars and services and ask what the impact will be. It is not just dollars.
- c. In January, the proposed budget goes to the City Manager for review. We are currently addressing the anticipated shortfall to the General Fund due to the State's Budget Update. Staff is working on contingency plans....the long-term fix.

In January, staff builds the base budget based on the current budget plus contract obligations, Memoranda of Understanding (MOUs) and Consumer Price Index (CPI). The Budget Office sets the targets for General Fund departments. The departments return in February and build the budget by subtracting and adding recommendations. In mid-May to the end of June Council conducts deliberations reviewing and adopting a balanced budget.

- d. The Budget definitions of this presentation are included in the back of the City Budget document. The Budget and CAFR Financial Report are available off the City website, Budget link. Reading these reports is recommended; you will get a good grounding on City Finance.

Renena Smith's PowerPoint presentation was specific to the DPU as an Enterprise Fund.

- a. Two types of reserve – operating service and capital reserve. In DPU, most of the divisions will have two operating funds: Reserves and rate stabilization funds.
- b. Bonding for capital projects: Pay-as-you-go financing or Debt Financing. Debt coverage ratio - Fund reserve components, the first area is undesignated and may also have a

designated unreserved fund balance for a project that the division wants to do and sets aside money.

- c. The City also has reserves for legal contractual obligations - example a pending lawsuit.
- d. Capital Reserves – are managed by maintaining a 5 – 10 year capital improvement program, balancing pay-as-you-go and bonding options.
- e. Capacity increase – Staff evaluates when to grow and increase capacity; accesses reliability of equipment setting aside funds for the replacement of older equipment.
- f. Capital improvements – We can earn interest while we are waiting for funds to accumulate. Maintenance programs should determine what the capital needs are. In government we do the opposite; it is unfortunate. Staff is informed of the revenue allocation and they have to fit the project to the revenue.
- g. Bonding - Noting credit agencies will look at your reserve balances to determine your rating.

Member Deena Monterio arrived.

- h. Debt financing (Slide 8) pay-as-you-go, sometimes this is not the best option. Balance your pay-as-you-go and bonding levels and identify what a good balance. Staff works outside bond counsel to guide them through that process.
- i. Formal debt policies are to fill the gap for new projects when current funding is not available.
- j. Informal debt policies – the City does not issue debt for current operations, which would be like using your credit card to pay your rent. An example, funds for a fire truck, we may not use bonds but we spread the cost over three years by doing a lease.
- k. The City does not want our bonds to exceed 30 years.
- l. Covenant - the rules of the bonds including debt coverage ratio.
DPU has 2 coverage tests:
 - 1. 100% coverage test, on-going revenues divided by expenses.
 - 2. Greater than 100% coverage test – revenues including rate stabilization divided by expenses.
- m. When the City cannot meet the coverage tests they need to be looking at increasing rates.
- n. On a quarterly basis, divisions review revenue and expense estimates and calculate the coverage tests. This is done more frequently when necessary. Then staff tightens their belts and puts off purchasing things like computers or buying paper by the week instead of stocking up.
- o. Inter-fund activities: internal funds between departments.
- p. Street tree trimming is funded by the Revenue Transfer Method.
- q. Member Schilling inquired if the City keeps a list of street trees that need trimming as a result of solid waste vehicles needing to gain access to customers with curbside service.

Lon Martin, Assistant Director, responded there was a nexus study done that recommends Solid Waste and Community Sanitation fund some street tree trimming operations. The nexus study determined FAX buses and Solid Waste trucks degrade the streets (heavy vehicles) but only DPU is charged the Transverse Fee and the reason FAX does not pay is because they still pay the in-lieu fee.

- r. Member Schilling questioned are the rate payers paying twice?... saying we pay taxes for streets and then we pay for rates. Lon Martin responded what the rate payers pay for is normal wear and tear, the nexus study is for heavy use; not normal wear and tear.
- s. DPU vehicles do not pay a state vehicle registration fees like typical vehicle owners. Vehicle registration fees cover the impact on the local streets.
- t. John Watkins reported the Transverse Fee is common practice in local governments and is something that an outside firm looked at and developed.
- u. Member Michael Napoli asked if an outside firm determined if an increase in the Transverse Fee is the same or tied to growth stating it should not be left stable. Lon Martin responded, no, growth index was included with the fee.

Self Introductions

- Member Deena Monteiro was welcomed to the Committee and self introductions were made.
- Member Allan Schroeder, Cost Manager for DelMonte Foods; appointed by Councilmember Henry Perea.
- Member Sharon Schilling, served on the past Utility Advisory Commission, retired; appointed by Councilmember Mike Dages.
- Member Art Reker, resident of Fresno since 1962 and owner an advertising agency in Clovis; appointed by Mayor Autry.
- Member Sarah Velasquez, new to Fresno, an educator; appointed by Mayor Autry.
- Member Michael Napoli, resident of Fresno most of his life, Construction Project Manager with AT&T; appointed by Councilmember Brian Calhoun.
- Member Deena Monteiro, California State University Sacramento, moved here in August 2006 from Sacramento area, background Community Planning, ran for an elected position in Parks, left during her 2nd term to move to Fresno. Teacher for a charter school and will be beginning a new job with Sanger Unified in January. Credentials in math and social science; appointed by Larry Westerlund.
- Sarah Rubin, Facilitator, Center for Collaborative Policy California State University, Sacramento.
- Lon Martin, Assistant Director, lead staff person to the UAC.
- John Watkins, Management Analyst for DPU Administration assisting Lon with the UAC.
- May Albiani, Executive Assistant, providing staff support services to Administration staff and the UAC.
- Cindy Williams, Department's Budget Coordinator.
- Jackie Graizer, JSA Advertising, handles public education for the Department.

3. UAC Calendar

- a. Consideration of additional tours was discussed. The consensus was to have a Community Sanitation/Solid Waste/Sunset tour on January 3, beginning 8am from the Promenade Parking Lot adjacent to City Hall. A Water Division tour was set for January 15 beginning at 2:15pm from the Promenade Parking Lot.

Monthly Meetings:

- January Meeting will remain as Thursday, January 10.
February Meeting moved to Wednesday, February 13.
March Meeting will remain as is, Thursday, March 13; however, optional meeting location at Fresno City College's Lecture Hall or Fresno City Council Chamber. Approximately 225 students from Member Velasquez's Political Science class will be invited to observe the meeting. (It was the consensus of the Committee that they were comfortable with this meeting forum.)
April Meeting *may* move to April 9.

4. Selection of Utility Advisory Chair

- a. Lon Martin advised it is important to have a Chair for the Committee, particularly during decision making issues. This is to keep staff neutral and outside of the decision making aspect of the group. The Chair will assist in setting the agenda. Upon discussion, it was the consensus of the Committee to appoint Sharon Schilling as Chair and Deena Monteiro as Vice Chair.

5. Public Utilities 2008 Budget Presentation

- a. The presentation was pretty much the same as what was presented to City Council. The presentation was included in the meeting packet and posted on the website.
- c. Cost increases for water include PG&E, chemicals, granular activated carbon (which has doubled in cost), and labor agreements.
- d. Natural gas engines for water well pumps have become less efficient due to stringent air quality standards.
- e. Fresno City Council declined to participate in the Community Choice Program to generate our own power.
- f. Fresno and Clovis have a Joint Powers Agreement regarding sewage capacity. In addition, Clovis has recently built their own facility to manage growth for their community. Note: the figures on slide 9 of the presentation address growth and debt service for Fresno, not Clovis.
- g. Solid Waste leases its trucks from the Fleet Maintenance Division. Solid Waste is driving LNG (Liquid Nitrogen Gas) vehicles.
- h. In response to Chair Schilling, the gas engines for the pumps on water wells is a different technology compared to the gas engines on the Solid Waste trucks. The pumps require more torque to pull the water from the ground. The Air Quality Control Board standards do not permit the City to run water pumps on demand.
- i. Sarah Rubin, Facilitator, asked if the City gets credit for using natural gas solid waste trucks from the Air Quality Control Board. The Committee asked that this become an action item. Staff advised they would have Solid Waste respond during the presentation at next month's meeting.
- j. Solid Waste has one location to house its fleet of trucks. Each evening the trucks are refueled and repairs are made as needed. However, the City uses a Transfer Station to shorten trips to the Landfill.

- k. Fire Hydrant Maintenance and Transverse Fees are a result of General Fund revenues lost from the court-ordered elimination of In-lieu fees. Other cities have a Transverse Fee.
- l. Risks in business: Water and Wastewater Divisions carry a higher reserve. Solid Waste Management Division has a 30-day reserve while Water and Wastewater have 45 or 60 day Reserve.
- m. Committee Member Deena Monteiro resides in Southeast Fresno, a new development within Fresno. She explained she has experienced several missed pick-ups due to a poor implementation plan for new developments. Could this be looked into and an implementation plan for new developments developed to ensure a trouble free start-up? Staff advised this would be responded to during Solid Waste's presentation at next month's meeting, January 10, and was recorded as an action item.

6. Unfinished and New Business

- a. Committee Member Art Reker expressed an interest in learning what the customers' attitudes are to the rates. This was noted as an action item.
- b. Committee Member Art Reker would like a detailed narrative to item 1A - Fresno Utility Rate Comparison with other cities. What are the reasons behind Modesto, Selma, Merced and Bakersfield rates being so different to Fresno? How do Bakersfield customers feel about their rates? This was noted as an action item.

7. Public Comments

None.

Meeting adjourned.